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on Wednesday, 3 July 1991, at 3 p.m.

President: Mr. TOFIGH (Islamic Republic of Iran)

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The meeting was called to order at 3.10 p.m.

EVALUATION OF THE OBJECTIVES AND FUNCTIONS OF UNIDO IN VIEW OF RECENT CHANGES AND DEVELOPMENTS IN THE WORLD (IDB.8/33 and 40)

1. Mr. BORDVIKOV (Observer for the Byelorussian Soviet Socialist Republic) said that his delegation fully endorsed the decision by the Board that UNIDO's cooperation in modernizing industry in the Eastern European countries should not be to the detriment of its objectives with regard to the industrialization of developing countries. However, the political and economic changes in Eastern Europe had generated some very complex issues, particularly in respect of industrial restructuring. The countries in question were suffering political difficulties and their consumer market situation was becoming steadily worse.

2. In his own country, the crisis conditions were aggravated by the consequences of the Chernobyl nuclear accident. Enormous financial resources had been switched from industrial restructuring to alleviate the consequences of the accident and the Republic would have to find 100 billion roubles. His Government was unable to cope alone and he referred to resolution 45/190 of the United Nations General Assembly calling for international cooperation to mitigate the consequences of the accident. He welcomed the Director-General's statement that UNIDO would do its part to comply with that resolution and expressed his Government's appreciation of the UNIDO mission to the Chernobyl-affected area. He hoped that UNIDO would play a role in coordinating the special contributions to be pledged at the Chernobyl programme conference in New York in September 1991.

3. Byelorussia set great store by UNIDO in the field of technical and consultative experience, because the Organization was in the best position to offer practical assistance in industrial rehabilitation, surveys and conversion. In the existing complex situation, Byelorussia could be equated with the UNIDO service using countries for a 10-15 year rehabilitation period. The Republic needed help in running individual subprogrammes, assessing the economy and implementing a long-term ecology programme. In making that appeal, however, his Government did not wish to pre-empt resources to deal with its national problems to the detriment of other Member States.

4. Mr. AL-MOUNAJED (Syrian Arab Republic) said that recent world developments had had an influence on the developing countries, most of which had decided to embrace the market economy. There was an ever-widening gap in per capita GNP

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between the developed and the developing world and similar gaps in productivity and industrial growth. UNIDO should strive to bridge the gap by the transfer of technology from the North to the South, with special reference to small and medium-sized industries. Although the environment was very important in the developing world, it should not be used as a pretext to discourage the transfer of technology. Much could also be achieved through human resources development, increased training and the use of local experts to implement modern technology.

5. His delegation thought that the establishment of an international centre for science and high technology was an excellent idea, which should help to end the "brain drain" phenomenon. The Centre should coordinate its activities with others in the developing world.

6. The population growth rate in the South far outstripped that in the North and efforts should be made to promote small and medium-sized industries, above all those which utilized local resources. In that connection, he mentioned an act that had been passed in his country to encourage private-sector investment by means of incentives such as tax abatement and funds repatriation for both local and foreign investors.

7. UNIDO should continue its assistance to the Palestinian people, with due regard for developments in the region.

8. Mr. MBOUP (Senegal) said that the objectives and functions of UNIDO were clearly set out in its Constitution, namely, that developing countries were the priority beneficiaries of UNIDO's industrial development assistance. It was the duty of the Board to ensure that the Organization's activities remained within the framework of the Constitution. It was thus proper for the Board, when considering the many requests made to UNIDO, including the requests for assistance from the Eastern European countries, to state that such assistance should not be to the detriment of the developing countries. UNIDO should thus ensure that neither the low level of industrialization nor the high level of indebtedness of the third world countries should result in any reduction in the flow of funds towards them. It was also the duty of the Board to examine the financial, material, human and institutional resources needed to accomplish UNIDO's objectives.

9. As far as finance was concerned, there were still cash-flow problems, due to the non-payment of assessed contributions, which were severely hampering UNIDO's programmes, including those in developing countries. Against that background, his delegation hoped that the developing countries realized that they gained far more from UNIDO than they had to contribute to it and that the developed countries accepted that support for the industrialization of the South was both a moral imperative and an economic necessity. In the circumstances, his delegation favoured the use of the balance from the 1986/87 financial year to improve the cash-flow position.

10. His delegation thought it advisable to diversify the means of financing UNIDO's activities, because excessive dependence on a single funding source generated budgetary instability. He referred, in that connection, to the new arrangements with UNDP regarding the reimbursement of support costs.

11. The increase in special-purpose funding should therefore be encouraged, but with two reservations: firstly, as already stated by the Board, such funds should be earmarked for the implementation in developing countries of project properly integrated into UNIDO's technical cooperation programme and, secondly, the multilateral nature of the Organization should not be forgotten or its Members' obligation to make their contributions to the regular budget in full, irrespective of their payments to the operational budget.

12. It was also essential that the zero-growth rule should be reviewed. Even if it were fully paid up, UNIDO's regular budget would be unable to cover the developing countries' needs. The accumulation of arrears in payment of contributions should in no way justify the retention of zero growth.

13. His delegation urged the donors to sustain the growth in the Industrial Development Fund, above all in order to allow the Secretariat greater programming freedom, which would be achieved by strengthening the proportion of convertible currency contributions. Recent economic changes in the Eastern European countries presaged such a trend, together with a reduction in non-convertible contributions.

14. As far as material resources were concerned, the purchase of an electronic data-processing system was a useful investment inasmuch as it helped to modernize UNIDO. It was unfortunate that the resultant financial commitments had placed a greater burden on very meagre financial resources. His delegation hoped that a solution could be found whereby the equipment could be retained while making all possible reductions in costs.

15. As far as institutional resources were concerned, his delegation had been very interested in the revised restructuring plan. It would be useful if the organization chart could be supplemented with details of the improvements expected from the proposed changes.

16. He reminded the Board that Dakar was soon to host the tenth session of the Conference of African Ministers of Industry. His Government, mindful of the importance of that meeting, would spare no effort to make it a success and counted on UNIDO's support.

17. Mr. CHEN Shiqiu (China) said that the world was changing rapidly, as was the external environment of UNIDO. If an organization concerned with industrial development could not keep abreast of external changes, the consequences could be serious. The Member States and the Secretariat had thus to examine the new challenges faced by UNIDO and work out strategies.

18. His delegation, which had made a close study of the reports in documents IDB.8/33 and IDB.8/44, had some preliminary comments on the current agenda item. The changes in the world political situation had had a profound impact on the world economy but the developing countries had derived little benefit therefrom, mainly because of the irrational world economic order which handicapped their development. The last decade had been a lost decade for those countries.

19. Unfavourable factors, such as falling commodity prices, deteriorating terms of trade for

primary product exporters, increasing protectionist measures and large external debt, had jeopardized the developing countries' industrialization prospects.

20. According to UNIDO's estimates, the developing countries' share of the world manufacturing value added product had increased to 13.8 per cent in 1990, a figure only 2.2 per cent higher than in 1975, indicating that it would be very hard indeed to achieve the 25 per cent target by the year 2000.

21. The prospects for developing countries in the new decade were not bright. Many were still affected by unfavourable trading terms, natural disasters and large external debts, among other things. While a developing country had to rely mainly on its own efforts it also needed external assistance.

22. UNIDO's mandate and objectives, as set out in the Constitution, should not be changed, because the developing countries needed increasing help in the changing global situation. UNIDO should strive to fulfil its mandate and to achieve its objectives by readjusting its strategies, restructuring its organization and improving its existing methods.

23. There had also been changes in United Nations assistance patterns, in which connection he referred to the two new policies being implemented by UNDP. Those policies would inevitably have an impact on UNIDO, which also had to compete with bilateral assistance institutions, private agencies and non-governmental organizations outside the United Nations development system.

24. UNIDO's long-term future lay in the diversification of its quality services and its reasonable charges for such services. The wide choice of services, the principle of neutrality and the non-profit nature of its services were UNIDO's advantages over other technical service and consultancy agencies.

25. His delegation agreed with the comments by the Director-General in document IDB.8/33 regarding the growth of special trust fund activities. It hoped that the Director-General would continue to adhere to paragraph (i) of decision IDB.6/Dec.23 when accepting voluntary contributions and that donors would not attach conditions that were incompatible with the objectives, policies and practices of UNIDO as a multilateral agency.

26. Mr. KHERBI (Algeria) said he wished to reiterate the views expressed by the Group of 77 at the sixth session of the Board. It was politically unacceptable and morally indecent to question in any way the position of a country that had suffered and continued to suffer from the negative repercussions of an adverse international economic situation. Changes on the world scene, whether economic or diplomatic, should not be to the detriment of the developing countries. The situation was already very tense, with the risk of an ideological confrontation between the North and the South.

27. The World Bank estimate for 1990 indicated a reverse transfer of resources from developing to developed countries of $50 billion. Such a situation was unacceptable in an international community, where respect for others should prevail.

28. Within the Organization, there was a tendency to reduce basic resources and increase special trust funds. It was wrong to put such pressure on scarce resources earmarked for small projects which could have considerable impact in the developing countries. In an agency like UNIDO, resources should not be spread more thinly merely to respond to external changes.

29. Greater attention should be paid to the situation of the developing countries and particularly that of the least developed countries. UNIDO should improve not only the volume but also the quality of its projects in those countries.

30. Ms. BYANYIMA (Uganda) said that, in Africa, there had been a decline in direct foreign investment, with private companies turning towards Eastern Europe. Moreover, development assistance from the North was being divided between the developing countries and the Eastern European countries. UNIDO was currently receiving more requests for cooperation activities in the industrial sectors of Eastern Europe.

31. UNIDO had, as set out in its Constitution, a very clear mandate to promote the industrialization of the developing countries, a mandate from which it should not diverge. It must resist the temptation to become a channel for investments in newer and more exciting markets.

32. The PRESIDENT said that the Board had concluded its discussion of agenda item 16.

SYSTEM OF CONSULTATIONS (IDB.8/21 and 22)

33. Mr. ARAOZ (Deputy Director-General, Department for Industrial Promotion, Consultations and Technology) said that the System of Consultations had maintained its level of delivery and improved the quality and quantity of its output, despite a substantial reduction in its budgetary allocation; it continued to hold six Consultations every biennium, in addition to preparatory and follow-up meetings.

34. The use of consultants had been considerably curtailed, greater reliance being placed on the programme's own staff resources for the production of studies, reports, issue papers and other inputs.

35. The programme of Consultations for the biennium 1992-1993 would consist of six Consultations, including three regional Consultations - one in Africa on animal feed, one in Asia and the Pacific on the industrial utilization of medicinal plants, and one in Latin America and the Caribbean on restructuring the capital goods industry. Consultations on the downstream petrochemical and the construction industries would be held at a global level, while the sixth Consultation of the biennium would be the regional Consultation on the petrochemical industry in the Arab countries, postponed from the 1990-1991 biennium because of the situation in the Gulf. In view of the limited human and financial resources available, the consultation meeting on consulting engineering services had been postponed to 1994-1995, but the postponement would have no budgetary implications.

36. A number of measures had been adopted to improve the efficiency of the System of Consultations and to make it more responsive to

the real and direct needs of the developing countries, more conducive to regional cooperation and more action-oriented. They were also aimed at effectively integrating the System into UNIDO's overall activities and programmes, at improving in-house cooperation and integration, and at enhancing cooperation with other United Nations agencies and organizations and with non-governmental organizations, governmental organizations and large national corporations; a number of proposed measures were designed to reduce costs and make better use of staff resources.

37. Mr. MOHAMMED (Nigeria) said he welcomed the fact that UNIDO had begun to implement some of the recommendations of the regional Consultation on industrial rehabilitation/restructuring with special focus on the food-processing industry in Africa. In his own country, a number of formerly governmental or quasi-governmental enterprises were being privatized with a view to making them more profit-oriented. In that connection, his country would continue to need UNIDO assistance in developing appropriate technologies that were suitable for local needs and in mobilizing the funds to acquire the necessary machinery and equipment.

38. The regional Consultation on animal feed and related industries in Africa, to be held during the 1992-1993 biennium, was of immense interest to his delegation, which welcomed any assistance from UNIDO that would enable the countries of Africa to attain self-sufficiency in food production. Many African countries suffered from overgrazing, desertification, erosion and, consequently, malnutrition, compounded by drought and sporadic flooding. Since agriculture was the mainstay of the economies of most African countries and the source of inputs for industry, it was essential that there should be closer links between the agricultural and industrial sectors.

39. Several African countries were dependent on food aid and food imports. There was an increasing demand in Africa for meat products, especially poultry, but production was limited by an inadequate supply of animal feed, though Africa was a net exporter of ingredients for compound feeds. UNIDO should place special emphasis on the utilization of traditional agricultural ingredients for the local manufacture of compound feeds.

40. His delegation welcomed UNIDO's determination to mobilize national and international efforts to maximize the utilization of existing facilities and available agricultural inputs for the production in Africa of sufficient food for local consumption and, ultimately, a surplus for export. It urged the Organization to continue its efforts to develop, transfer and adapt technology to the agro-industrial subsector of the countries of Africa in order to promote the development of small and medium-sized industries in the region.

41. His delegation supported the proposed measures to improve the efficiency of the System of Consultations set forth in document ID8.8/22.

42. Mr. PLUG (Netherlands), speaking on behalf of States members of the European Community, said that it would be inopportune to hold the regional Consultation on the petrochemical industry in the Arab countries, postponed from the 1990-1991 biennium because of the situation in the Gulf, in 1992, because the European Community was organizing a similar meeting at the same time. The Community welcomed the measures proposed to improve the integration of activities of Consultations into technical cooperation programmes and projects, to augment the role of Advisory Committees in fostering in-house cooperation, and to expand and intensify cooperation and contacts with United Nations agencies, international, intergovernmental and non-governmental organizations, national corporations, professional associations and universities. It sought clarification, however, concerning the measures proposed to increase the number and enhance the role of panels covering specific sectors.

43. The regional or subregional character of the Consultations should be respected in order that they might achieve the best possible results but, while the success of recent regional Consultations was most gratifying, the delegations he was representing were not in favour of the organization of national consultations, which would encroach upon UNIDO's technical cooperation activities. They noted with satisfaction the recommended economy measures, provided that they were not to the detriment of the working languages.

44. The success of the Consultations continued to depend on their technical nature, the extent to which they aroused the interest of industrialists, and the follow-up to the recommendations they made. In the case, for example, of the Consultation on the restructuring of the capital goods industry in Latin America and the Caribbean, the result had been that the Organization had developed and proposed an important project.

45. Mr. PROKHOROV (Union of Soviet Socialist Republics) said he welcomed UNIDO's Consultations work, particularly with regard to the development of human resources, small and medium-sized enterprises and industrial rehabilitation and reconstruction. The System of Consultations could be made more effective if a group of consultants were to undertake a technical and economic analysis of the results and consequences of the Consultation meetings that had already been held.

46. His delegation supported the Director-General's proposals, especially with regard to the coordination of the System with the technical cooperation programmes, augmenting the role of Advisory Committees, and cooperation with United Nations agencies and non-governmental organizations. It could see no sense, however, in the proposal to reduce the number of working groups to one and to reduce the number of working languages, since the apparent savings did not justify the radical curtailment of the topics discussed.

47. His delegation proposed that UNIDO should consider the possibility of including in the System of Consultations measures of an intersectoral nature aimed at creating and developing market structures and market relations in economies and industries, with particular reference to the implementation of privatization, the establishment of free economic zones, cooperatives, joint ventures, technology transfer centres, an economic mechanism to stimulate investment, commercial banks, insurance companies, etc. A series of regional and subregional meetings could be held to discuss such topics.

48. It also proposed, with reference to paragraph 35 of document IDB.8/39, that a series of meetings be held, within the framework of the System of Consultations, to consider the entire range of questions linked with the economic and industrial changes taking place in the countries of Eastern Europe, with the objective of drawing up recommendations and possibly UNIDO programmes for those countries to help them develop market structures. Such meetings, in which interested developing countries would participate, would also broaden cooperation between the Eastern European countries and the developing countries. Similar meetings could be held in other regions.

49. Mr. SCHAAD (Germany), having endorsed the views expressed by the representative of the Netherlands on behalf of the European Community, said that, while continuing to regard the System of Consultations as an appropriate forum for exchanging information among business partners from developing and developed countries and as helpful in creating an industrial infrastructure in the developing countries based on competition, his delegation thought it essential that the programme be reformed.

50. The main responsibility for the Consultations should lie with the industrial experts, since they were the only people with the necessary expertise and decision-making competence to help the developing countries in their efforts to industrialize. One of the priorities of the organizers of the Consultations for the next biennium should be to secure a rapid increase in the number of participating experts from industry.

51. In fact, his Government suggested that every Consultation, whether global or regional, should be combined with an investment promotion meeting as a forum for entrepreneurs from developing countries, who were seeking business partners or experience from industry, to present their industrial projects, and at which information could be given on pilot projects that had turned out to be successes or failures.

52. The number of Consultations covering a large variety of themes should be reduced, in favour of special branch-oriented Consultations which would work out concrete proposals on how industrialization projects could be implemented in practice. Country and/or regional working groups should be set up within the framework of the Consultations with a view to meeting more effectively the needs that were occasioned by the various branch-specific development problems; the value of such working groups had been demonstrated on the occasion of the second Consultation on the wood and wood products industry, held at Vienna in January 1991.

53. There should also be follow-up expert meetings which would enable specific technological and economic issues to be treated more satisfactorily than was the case with follow-up Consultations. Lastly, regional Consultations should be linked to specialized industrial fairs.

54. His Government believed that the System of Consultations, while being an appropriate instrument for enhancing industrialization in the developing countries, should be more project- and need-oriented. In an era in which market principles were becoming more widespread, Consultations free of the ideological burdens of the past could become a constructive forum for exchanging ideas and experience.

55. Ms. CONSTANTINO (Philippines) said that, with an increase in the developing countries' share of world industrial output to 25 per cent by the year 2000 still a remote possibility, the System of Consultations was more important than ever and should be given priority attention. Identification of the units within the Organization that would be undertaking follow-up measures to the programme of Consultations was an essential element of the plan. That would not only provide a clear delineation of responsibilities but also reflect the shift in UNIDO's sectoral thrust and promote the integration of the System of Consultations into the other activities of the Organization.

56. Appropriate measures should be adopted to ensure that the follow-up action for which they were responsible was duly taken into account by the units concerned in their respective programmes and accommodated in their resources and financial mobilization activities. The System of Consultations Division should also accommodate within its own resources those follow-up measures that were within its field of expertise.

57. Mr. CONSTENLA (Costa Rica) said that the second Consultation on the wood and wood products industry, held at Vienna in January 1991, had been of considerable relevance to his country, particularly in respect of housing construction and furniture-making. The success of the System of Consultations had been such that it should be extended to many other activities, as recommended by the Secretariat.

58. Mr. RAHMAN (Sudan), emphasizing the importance of the Consultations that had been held and the System of Consultations as a whole, said he hoped that they would be more than merely academic exercises; they should be geared to finding practical solutions to practical problems. He welcomed the programme of Consultations proposed by the Director-General for the biennium 1992-1993, and hoped, in particular, that the regional Consultation on the petrochemical industry in the Arab countries would be held at an early date. It was also of great importance that companies should be included in the Consultation process.

59. Mr. ARAOZ (Deputy Director-General, Department for Industrial Promotion, Consultations and Technology) said that he had taken note of the many useful suggestions made and particularly the concern that had been expressed with regard to follow-up activities. UNIDO was paying particular attention to that aspect, and had set up working groups in which different units of the Organization were taking an active part.

60. Replying to the representative of the Netherlands, he said that the working groups or panels would be along the lines of those that already existed for the leather and allied industries; they would be set up as and when funding became available. There was already a specific recommendation that a panel be set up for the aluminium industry in Latin America, but funds were needed. The concept of national consultations was a procedure for following up recommendations at the national level in the case of countries which had made a particular request.

61. He shared the view expressed by the representative of Germany concerning the

participation of industrialists in the Consultations. The Organization was doing its utmost to increase their number, with particular emphasis on industrialists from the private sector. The idea of combining Consultation meetings with investment promotion was a very interesting one, and the Secretariat would consider it and assess its feasibility. It would also study the suggestions regarding country and/or regional working groups and follow-up expert meetings, but there would be a funding problem.

62. As for the request for a greater specificity of Consultation themes, the Organization had been making great efforts to ensure that Consultations were more focused. In that connection, he cited the regional Consultations on animal feed and related industries in Africa, on industrial utilization of medicinal plants in Asia and the Pacific, on machine tools in Latin America and the Caribbean and on phosphate fertilizers in Africa.

63. The proposal by the representative of the USSR that a group of experts be set up to analyse the results and consequences of past Consultations was an excellent one but there had, in fact, been an evaluation exercise in which the matter had been considered.

COMPUTERIZATION PROGRAMME OF UNIDO (IDB.8/3, 5, 6, 12, 19 (para. 37), and 48)

64. The PRESIDENT said that the Board should consider the recommendations of the Programme and Budget Committee in its conclusion 1991/13, with particular reference to paragraph (c), as well as the various documents before it.

65. Mr. WARNER (Deputy Director-General, Department of Administration) said that, having reviewed the proceedings of the Board's seventh session, he was able to share many of its observations and had developed a perspective of its concerns. The introduction of a major computer system was a complex undertaking, with a distinct probability of error. Similar problems had been encountered by many organizations, both private and public.

66. It was necessary to find a reasonable solution to the problem. The Secretariat, with the support of the Consultant, had presented a sound and cost-effective recovery programme in document IDB.8/8/Rev.1/Add.1. Other options had been considered and rejected.

67. A different view had been expressed by four members of the Working Group of Independent Experts through their statement as members of the Project Liaison Committee, and through a letter to the President of the Board. The Consultant had responded by letter to the President of the Board on the technical issues raised in those statements. A further Project Liaison Committee meeting had been scheduled for 31 July 1991 to resolve the divergence of views. The Committee would submit its observations on the report of the Consultant well in advance of the resumed session of the PBC on 23 August 1991.

68. The experts had presented three options. Option one, according to them, was the most conservative and the most expensive. By conservative was apparently meant the avoidance of unnecessary risk in the recovery programme. Options two and three both called for new capital and involved some degree of risk. In the Secretariat's view, new calls for capital should be avoided in any option and, in fact, the avoidance of risk reduced the likelihood of added capital requirements. Indeed, in their oral presentation and in their letter of 27 June 1991, the experts basically accepted option one as the primary path to recovery.

69. The Secretariat fully concurred with the view of the independent experts, the External Auditor and the Consultant on the condition of the software portfolio, which was vulnerable, costly to maintain and in need of substantial rebuilding. It would be easier to develop new applications in option one. He emphasized that the software portfolio must be renewed with the utmost care, and on a secure basis, to avoid unforeseen costs.

70. Option two, by halving capacity, presented high risks in terms of the software portfolio. Option three had the highest capital implications. According to the experts, there was a high risk that key systems could collapse for several months.

71. Other points raised in connection with option three included: the exclusion of contractual obligations to IBM, which the External Auditors believed to be binding; lack of appropriate technical experience, remedying which would involve high training costs; the need for costly parallel operations for many years; and severe transition problems for the software portfolio.

72. The $4.7 million in paragraph 3.3 would have to be added to the base estimate of $15 million, but that did not include the substantial indirect costs of the period of the "key systems collapse". The cash-flow implications noted in that paragraph as new investment would be required at the beginning of such a programme, i.e. they would constitute a major added cost in the 1992-1993 budget.

73. UNIDO simply could not afford the costs of option three, or the effects of the breakdown of operations. Similar types of architecture had been reviewed by the United Nations, and conclusions reached similar to those of the experts. Although it might have been a viable option three years previously, the overwhelming risks and costs associated with option three ruled it out of consideration.

74. Details of EDP-related expenditures for the current year, together with ongoing contracts and purchases, were contained in documents IDB.8/48, PBC.7/2 and IDB.8/CRP.8.

75. On an exceptional basis, and with the cooperation of the Consultant, the Director-General had made available an excerpt from the contract with the Consultant containing the terms of reference for the work to be performed. That was definitely not to create a precedent. In informal discussions, the External Auditor had noted firmly that, while that exception could be viewed as being in the interests of further clarification, there was a clear need to avoid any duplication of, or interference with, his functions and responsibilities.

76. Finally, he expressed his appreciation for the good counsel of the External Auditor and his

thanks to the many Member States which had made perceptive and constructive comments aimed at reaching a sound and effective solution.

77. After a procedural discussion in which Mr. MANSINGH (India), Mr. ARIAS SALGADO (Spain), Mr. TALIANI (Italy), Mr. ANGUIANO ROCH (Mexico), Mr. TREMEAU (France) Mr. GUTIERREZ LEYTON (Chile) and Mr. NEUMANN (Legal Adviser) took part, the PRESIDENT suggested that the Board should proceed with its discussion of the agenda item.

78. It was so decided.

79. Mr. GUTIERREZ LEYTON (Chile) said he was concerned that the Board was losing sight of the legal aspect, by which he meant the particular features of public international law governing the activities of international institutions such as UNIDO. It had been established that the contracts could have been judged null and void, in that they had been concluded without a specific mandate or, at any rate, in excess of earlier mandates. In a spirit of flexibility and cooperation, however, his delegation had accepted the alternative of renegotiating the contracts, on the assumption that that would be done on a reasonable basis.

80. Firstly, he was concerned that considerable time had elapsed without a solution being found, while the problem seemed to be becoming increasingly complex. Secondly, the delegations had not received the necessary facilities to enable them to reach a considered opinion. Consultants and experts had been permitted to have copies of the contracts but not delegations. That seemed to mean that the representatives of sovereign States were being told to pay up under contracts on which they had not been consulted and, when they asked about the commitments entered into, were told it was none of their business.

81. He was particularly disturbed that there seemed to be an attempt to force through a ratification of what had been done in the past, thus endangering the consensual basis of the Board's work.

82. Mr. ANGUIANO ROCH (Mexico), speaking on behalf of the Latin American and Caribbean Group of Countries (GRULAC), recalled that at the sixth session of the Board there had been increasing evidence and recognition of irregularities in UNIDO's computerization programme. Faced with a fait accompli by the Secretariat, the Member States had agreed to commission reports from the External Auditor and a group of independent experts on the technical, financial and legal aspects of the acquisition of a computer without the authorization of the governing bodies of the Organization.

83. It was necessary to examine the extent of the problem as a whole. The External Auditor said in his report (IDB.8/3, para. 40) that the contracts and agreements were legally binding. That was presumably because there was agreement of intent, subject and price, but that did not mean that they were legally valid if the Secretariat had had no mandate to acquire the equipment or commit the Organization financially. The External Auditor described the course of action as "questionable" (para. 84), since it did not comply with the information or budgetary approval requirements stipulated in the Financial Regulations (para. 86).

84. The evidence of authorization provided to date was not enough to justify the acquisition of the computer. Even if such an authorization were subsequently given to the Secretariat, it would not be retroactive in effect. The contracts would remain void. The Secretariat would have to renegotiate them or enter into new ones.

85. As indicated by the independent experts in their report (IDB.8/6, paras. 16-20), there were various provisions for amendment or termination of contracts without penalty. It was not legally satisfactory to suggest, as the Secretariat had done, that renegotiation would have to be on the basis of agreed equipment and services, and that it would be more costly to change equipment or services. That could be established only through the negotiations themselves.

86. The time had come to consider what basic damage would be done to UNIDO's administration and technical cooperation programme in the absence of a computer which exceeded the real needs of the Organization and which it could not afford. To suggest that, if the additional costs of the computer were not approved, UNIDO would have to revert to manual data processing was ridiculous. It was not a convincing argument either that, if the EDP programme were not continued, there would be a partial suspension of technical cooperation, when the Secretariat had hardly begun developing its data-processing. No one denied that UNIDO had acquired a system much larger than it needed. There was thus no reason why it should not be reduced in size to comply with the needs, real utilization capacity and available financial resources of the Organization.

87. Mr. BOGNER (Austria) said it was inevitable that a bad mistake should occur now and then in the life of any organization, and there was no reason why UNIDO should be an exception. Its serious cash-flow problems had contributed to the fact that, in the process of adopting an independent EDP programme, maximum care involving considerable expenditure on surveys of needs and capacities had not been taken.

88. The Board should accept the Director-General's public acknowledgement that the Organization had made some serious mistakes and his promise that those mistakes would not be repeated, and should try to make the best of the situation. The course of action adopted since the middle of 1990 had been the only reasonable one, and his delegation welcomed the statement of the independent experts that option one in the Consultant's report represented a solution they could endorse; in the opinion of his delegation, options two and three were not viable alternatives.

89. Mr. BELLO (Philippines) said that the Consultant had unfortunately not presented a programme that would lead to substantial savings in the electronic data-processing (EDP) programme. A revised programme had been presented, and costs had been estimated at $US 43.64 million. The estimate had provided for unforeseen items of expenditure and inflation. During the briefing by the Consultant on 18 June 1991, the delegation of the United Kingdom had elicited the reply that the estimate was not new money, but included approximately $US 19.5 million considered as "sunk cost". It should be noted that the mainframe, if sold, would fetch a price of no more than $US 600,000.

90. While his delegation would have preferred and adequate but less expensive programme, the Consultant considered that that was no longer

possible, that the cost estimates were the minimum required to sustain a viable EDP programme and that further reductions would have a disproportionate impact on the benefits obtained.

91. The independent experts had speculated that, given the necessary time, they would be able to determine whether the Consultant's approach was the most appropriate for UNIDO or whether one of the other alternatives they had proposed, namely, downgrading the mainframe or abandoning IBM altogether, was preferable. The Working Group believed that a saving of $5 million could be realized. His delegation shared the doubts of many other delegations on the advisability of looking for savings of $5 million based on pure speculation. Furthermore, those speculations did not take into account the costs of parallel operations until the downsizing could be fully implemented or the expenses of hiring additional staff. The group had never fully addressed the issue of cost-effectiveness.

92. His delegation was prepared to join a consensus on reviewing UNIDO as an organization, including its viability. That would spare the pain of a seemingly irreconcilable conflict and avoid animosities.

93. Mr. KAMEL (Turkey) said that the Consultant's draft final report pointed to the lack of an overall information system strategy and of communication between departments on data-sharing. As a result, in order to obtain the same information, parallel work was carried out by different departments at various stages of projects. That situation had led to a duplication of work and a waste of money and manpower. Clearly, the Organization needed some central repository where data could be made accessible to all. That could be under the existing model or any other alternative system.

94. The report took the existing system as a base and tried to improve upon it by reducing costs and enhancing efficiency. His delegation was not convinced, however, that the best choice was being offered. In spite of the genuine efforts made by the Consultant, the cost of the modified EDP programme still represented an increase of 13 per cent over previous years. Taking into account the observations of the experts, his delegation believed that there might be yet other equally efficient but less expensive options. As the Organization was already facing a difficult financial situation, it was worth exploring the alternatives. The independent experts should be asked to look into the matter again and, to that end, the Board should renew their mandate.

95. Mr. ENDO (Japan) said that his delegation had carefully studied the EDP problem since it first became apparent but, even after its own investigation and that of the independent experts, the questions were still not satisfactorily answered.

96. The report of the independent experts had pointed out two main problems with UNIDO's EDP programme, namely: "too much capacity in present mainframe" and "office automation maintenance may be too expensive" (IDB.8/6, para. 6). That had been the substantive outcome of the review by the experts and, since the Consultant had been hired to resolve those issues, the absence of cost reduction options was disappointing.

97. The Consultant's draft final report proposed that there should be no substantial change to the hardware already in place and that some savings could be realized by reducing software, but that such savings must be reinvested. Those proposals seemed to be based on faits accomplis and to have overestimated UNIDO's ability to transform itself into the operator of a super-computer.

98. The Consultant's report showed a clear departure from the central conclusions and suggestions of the independent experts. Moreover, the data which the expert group had suggested was needed for a considered decision were missing from the report, as was the most significant information and cost analyses of other options.

99. The Consultant had dismissed the idea of changing the system as "prohibitively expensive", but his delegation was unconvinced by that logic. It wished to see clear and detailed facts, particularly about downsizing.

100. The Secretariat and the Consultant had agreed that the time for changing the system had passed, but his delegation felt that figures ought to be produced to determine the exact cost and any savings through downsizing, an increasingly popular practice worldwide.

101. Mr. SPROW (United States of America) said that the recommendations contained in the Consultant's draft final report were solid and credible and represented the best basis on which to address the problem. His delegation thus supported the proposals on a revised EDP programme put forward by the Secretariat in document IDB.8/8/Rev.1/Add.1, which incorporated the key recommendations from the Consultant's report. The revised EDP programme outlined in that document offered improved efficiency in a framework that would contain costs within acceptable limits.

102. It was unfortunate that the resumed Programme and Budget Committee had been unable to resolve the issue, or the larger one of the approval of the 1992-1993 programme and budget. That failure to act was a mistake, and the longer the delay, the greater the risk of compounding it. It was to be hoped that, when the seventh session of the PBC resumed on 23 August, it would finally take action on the computer and on the budget. His delegation trusted that the intervening meeting of the Project Liaison Committee would remove whatever doubts existed so that the issue could be laid to rest. UNIDO must take action without delay.

103. His delegation recognized that major errors had been made by UNIDO with regard to the EDP programme. However, the Organization needed a computer to function. Avoiding a decision was not helping it and was certainly not helping the States that were the recipients of UNIDO's assistance.

104. Mr. TREMEAU (France) said that three options had been envisaged and it was surely not too much to ask that all three options should be submitted to the Member States for their consideration. The independent experts must be treated on an equal footing with the Consultant, even if their sole mandate was to provide a technical opinion. It was impossible to say whether the solution proposed was technically the best one and that it would not be out of date in a few years.

105. From a financial point of view, it was difficult to understand the assurance that UNIDO had the means to finance such an expensive acquisition at a time when it was still in a precarious financial state. That being the case,

the Member States were clearly within their rights in proposing that limits be placed upon the expenditures they did not control and that UNIDO should make more substantial savings. It was virtually impossible to trace, through the maze of the budget, the sums spent on the EDP programme. The Member States should have been given an overall and detailed picture of the amounts spent.

106. As for the legal point of view, there was a complete lack of information about the letter of intent from UNIDO to IBM Austria, dated 13 June 1991, that had been mentioned by the experts. Member States must be fully informed of all aspects of the issue, including the negotiations with IBM, about which they had already inquired more than once.

107. His delegation was not opposed to the acquisition by UNIDO of an efficient computer system; it simply wished to be better informed. If the Secretariat provided the Member States with the information they requested, the crisis of confidence that was building up could be avoided.

108. Mr. CLARK (United Kingdom) said that his delegation had joined in the statements made on behalf of the States members of the European Community, placing firmly on record their grave misgivings at the way in which UNIDO's computerization programme had been introduced and the serious errors that had been made in the process.

109. A programme originally said to cost about $US 27 million, to be met from existing resources and savings on staff costs, had risen to nearly $US 45 million in the Secretariat's revised estimates without any warning to Member States until it was too late to reconsider the contractual obligations involved. The Consultant had advised that even that figure was underestimated and that costs in the region of $US 50.7 million would be incurred if the current system were retained. His delegation noted, however, that the Consultant had subsequently revised the estimate downwards to $43 million. It shared the External Auditor's view that the budgetary information and approval requirements of the Organization had not been met. Assurances were needed that the necessary management measures were in hand to ensure that there would be no repetition.

110. The working group of independent experts that had met in February 1991 had been unable to conduct a complete analysis of UNIDO's needs, and his delegation had therefore supported their main recommendations that a consultant should be appointed to carry out that essential task. The Consultant's report clearly showed that there was a lack of central planning and management control in UNIDO on EDP matters. Taken as a whole, the report provided Member States with a basis for decision-making. The experts had recognized the basic validity of the plan of action proposed by the Consultant and had also suggested that options to the main recommendation, i.e. that the current mainframe be retained, should be considered and worked on further.

111. Clearly, UNIDO must make every effort to find worthwhile savings. In the opinion of his delegation, however, any prudent manager would have rejected the arguments advanced by the experts as far too risky and uncertain. The Programme and Budget Committee had, however, asked for those options to be worked on further before its resumed meeting on 23 August. That was acceptable, and his delegation presumed that UNIDO would be able to find the necessary money to pay the Consultant to do the work.

112. His delegation regretted that the Programme and Budget Committee had failed to reach a consensus in the previous week since delay cost money. It believed that the extra work just commissioned would confirm the Consultant's recommendations, which it had been prepared to accept in full as providing a defensible programme that was also within the appropriations proposed for EDP in the revised budget for the next biennium. If the extra work resulted in further savings, so much the better.

113. Viscount VILAIN (Belgium) said that the Deputy Director-General for Administration had reaffirmed, in his introduction, that he considered the Consultant's draft final report to be the sole possible solution. In view of the exceptional circumstances in which the debate had taken place and the decision by the Programme and Budget Committee to refuse approval of the programme and budgets because of that very problem, his delegation was disappointed by the Deputy Director-General's stand.

114. It was surprising that the Director-General did not think that the Board must take a decision without fail on the subject at its current session and that he had not regarded it as necessary to make a specific proposal to the Board. Consequently, the Member States had to make their positions known and in that context, his delegation supported the remarks made by the representative of France.

115. In view of the unusual circumstances, his delegation, with several others, had decided to introduce two draft decisions which he read out.

116. Mr. DIHEN (Hungary) said that his delegation was among those that had accepted the objectives of the strategic automation project, which had been formulated in document IDB.7/31. UNIDO needed a reliable EDP programme to go along with its new structure if it wanted to ensure working efficiency.

117. The Secretariat had made a serious mistake in that, although it had realized that the estimated costs would increase enormously, it had not made sufficient information available to the Member States on the possible financing of the programme. At the same time, the Member States had not paid close enough attention to the creation of a monitoring system, which would have made it impossible for the Secretariat to enter into negotiations on such a huge investment without previous consultation.

118. The Consultant had done some excellent work and should not be held responsible later on for something that was not its doing. The solution it proposed was a reasonable one that served the future goals of the Organization and was also cost-effective, but it was impossible to rule out the existence of other less costly alternatives.

119. The project could not be halted or redirected without damaging the Organization's image and further delay in executing it might result in increased expenses. UNIDO could not continue the project without a modern software system. The

current solution stressed the need for procuring a new software system in parallel with the replacement of the hardware, which might take place as early as 1994. A data-processing software of the fourth generation was needed. The technology proposed by the Consultant required more programming activity, and it thus seemed to be more costly.

120. Any further delays might prevent UNIDO from offering better services to its Member States, UNDP and other financial institutions or even from providing computer services for the permanent missions of the Member States in the near future. It was essential to ensure full utilization of the EDP programme on a daily basis. For that reason, a decision must be taken to enable the Secretariat to utilize the allocated financial resources at least until the fourth General Conference, and the Secretariat must take the initiative to formulate a plan to provide a solid background for future EDP work.

The meeting rose at 6.25 p.m.